



Industrial Energy Consumers of America
The Voice of Industrial Energy Consumer

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June 25, 2007

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Rick Boucher
Chairman
Subcommittee on Energy and Air Quality
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Dingell and Chairman Boucher:

Introduction

The Industrial Energy Consumers of America (IECA) is appreciative of the opportunity to respond to your letter of May 24, 2007.

IECA is a national cross industry trade association of energy consuming companies dedicated to a broad array of energy/environment related issues. Corporate board members are top energy procurement, environmental, and government affairs managers who are leaders in their industry, technical experts, strongly committed to energy efficiency and environmental progress. IECA membership represents a diverse set of industries including: plastics, cement, paper, food processing, aluminum, chemicals, fertilizer, brick, insulation, steel, glass, industrial gases, pharmaceutical, construction products, automotive products, and brewing.

The manufacturing sector, particularly energy intensive companies require globally competitive energy prices and reliable energy supply. Because of its environmental advantages, renewable energy has a very important place within the U.S. energy mix and should be expanded along with other sources of energy but not in a higher priority to other more cost effective and reliable increased sources of electricity such as improved energy efficiency by all fossil fuel power plants and new clean coal or nuclear energy facilities. At this time, more renewable energy in the absence of expanded availability of

these other more cost effective and reliable energy sources is not a desirable outcome for the country. It is for these reasons we do not support a federal renewable portfolio mandate.

We strongly support extension of the production tax credit (PTC) for new energy sources. IECA also recommends changes to the PTC that provides an incentive to commercialize new break-through technology that delivers less expensive electricity. We also encourage the Congress to take action to remove regulatory barriers that will make it easier for renewable energy to access the grid and also an improved permitting process.

Energy Information Administration data indicates that the cost of power from each energy source varies significantly and that non-hydro renewable energy is the most expensive. The 2006 estimated cost of electricity by energy source is: nuclear \$13.54/MWh; coal \$20.80/MWh; natural gas \$49.51/MWh; and non-hydro renewable \$68.00/MWh. This means that non-hydro renewable electricity is 402% more expensive than nuclear and 227% more expensive than coal-based electricity.

Home owners, farmers and manufacturers are reeling from the impacts of higher gasoline, natural gas and electricity prices. We need less expensive and more reliable energy. It is important that we be mindful of the very narrow generation and transmission reserve capacity margins that could result in supply disruptions.

High relative energy costs since 2000 have had a significant impact on the competitiveness of energy intensive manufacturing companies. Since 2000, U.S. manufacturing employment fell 18.5% from 17.3 to 14.1 million jobs according to Labor Department figures.

High natural gas prices are driving up the cost of electricity across the country. Natural gas prices are over 140% above 2000 levels (higher than gasoline price increases) and the FERC Summer Energy Market Assessment of May 17, 2007 confirms that higher natural gas prices will increase electricity prices across the country from a minimum of 20% in the New York City region to a maximum of 32% in the ERCOT region. NYMEX future prices in December are priced at another 20% above today's levels. Much of this country's peak electricity demand is met using natural gas fueled generation. This natural gas based electricity in turn sets the price consumers pay for their base load electricity even though it is produced using lower cost fuels. The Electric Power Research Institute (EPRI) has said that even though natural gas is used to produce only 20 percent of the electricity, it accounts for 55% of the electric industry expense (\$50B out of \$91B).

IECA is very concerned that current U.S. policies are inadequate to provide necessary supplies of natural gas to maintain U.S. manufacturing, especially energy intensive manufacturing. Recent setbacks to the Alaskan natural gas pipeline, continuing problems around the siting of LNG terminals, and Congressional attempts to reverse the minimal progress toward natural gas supply in the 2005 Energy Policy Act all point to higher energy prices. We bring this up relative to your current questions in that while we

generally believe that renewable energy is a higher cost alternative, this country must develop some acceptable options for growth in energy supply.

If the Committee decides to support a federal mandatory renewable portfolio, we have the following input that we hope you will consider.

1. Purpose of Portfolio Standards Proposals

a. Do you believe that adopting one of more Federal “portfolio standard” requirements applied to sources of retail electricity, mandating that a given percentage of the power sold at retail come from particular sources, is an advisable Federal policy? Why or why not?

We believe that any portfolio standard requirement should allow as much market influence as possible. With that in mind Congress should only define the broadest portfolio possible and let market forces determine the most economical solutions. There will not be one solution that fits all situations and all geographies. The broadest set of solutions that meet the goal Congress is trying to achieve should be offered. Electricity generation has more fuel options than manufacturing and taking pressure off of natural gas supply by encouraging electricity generation by other means will be beneficial to retaining manufacturing in the U.S. It is well known that different states have different potentials for producing renewable energy. Each state should be able within any portfolio standard to use what is most advantageous for that state. At the same time we believe it would be beneficial for reaching a consensus and fairer if each state had a minimum requirement within the standard for electricity production within the state. The issues of production to the standard should be experienced by all states and not allow a few states to impose burdens they could not handle locally on others.

b. Is it appropriate for Government to impose generation-source conditions or energy savings requirements on load-serving utilities in order to serve public-policy purposes such as promotion of renewable energy production, energy efficiency, and reduction of carbon emissions? Why or why not?

Government modifies the behavior of markets when external costs are not recognized by a segment of the market. Currently we have external costs not being accounted by energy markets due to climate change and foreign conflicts. It is government’s responsibility to quantify those costs and apply appropriate conditions but let our markets work as freely as possible. To do this effectively government must identify its objective and not confuse the market by attempting to satisfy incongruent objectives. Energy efficiency is always beneficial and should be encouraged, however we do not feel that energy efficiency is sufficient to replace the need for growth in energy supplies. U.S. growth in population and living standards will not be adequately served based on efficiency and conservation. Promotion of renewable energy is not a purpose of its own. Promotion of renewable energy would be to serve a purpose such as reducing greenhouse gas emissions or increasing the U.S. domestic energy production. Again, government must be clear in

identifying the correct purpose. If the purpose is correctly identified the breadth of the appropriate portfolio will be obvious. If reducing greenhouse gas emissions is the purpose, energy efficiency by manufacturing/power sector, nuclear generation, hydroelectric generation and combined heat and power should all be in the portfolio.

c. If you favor such a policy, how would you define its specific purpose?

Manufacturing's purpose would be to increase the availability of globally competitive natural gas and electricity supply within the U.S. This is not the same as the broader national goals of reducing greenhouse gas emissions or decreasing our country's dependence of energy imports from politically unstable regions of the world. To achieve our purpose would encourage different actions than those you would take to meet those described for the nation. In the case of reducing greenhouse gas emissions manufacturers are concerned because solutions consistent with legislation proposed in the states or in Europe has lead to increased demand for natural gas by electric generators. With the fragile natural gas supply situation in the U.S. this has led to the closure of manufacturing plants and it is expected that additional closures will be necessary. Encouraging electricity generation from renewable sources, nuclear energy or sequestered coal would help manufacturing's situation provided the cost was not disproportionate.

d. Congress were to adopt an economy-wide policy mandating reductions in emissions of greenhouse gases, including the electricity industry, would such a portfolio standard policy remain necessary or advisable?

As stated in 1c, manufacturing needs a better supply demand balance for natural gas. Any mandate to reduce greenhouse gas emissions will put tremendous constraints on the use of coal for electricity generation. At the present time the only fuel that can substitute for coal is natural gas. This would be a terrible blow to U.S. manufacturing and the most energy intensive manufacturing would move offshore. Any portfolio standard that provided affordable options would lessen the pressure on natural gas. However until the siting of new nuclear plants and carbon sequestration technology is economically competitive and politically realistic, a portfolio standard for the remaining alternatives will not do much to lessen the damage to U.S. manufacturing.

While an economy wide policy may be the best for the country, a single approach applied to different sectors of the economy will not be fair. Different businesses had different margins, competition, and benefits. Forcing different industries to compete on a common basis to reduce greenhouse gas emissions would have undeterminable unintended consequences. Congress would be smart to use regulations as it has in the past where it has been restricted to individual segments with common cost and competitive structures.

e. What analysis has been done of any portfolio standards requirement you endorse to demonstrate:

i. Its economic costs to consumers, nationally, and in various regions, in electricity rates?

ii. Its benefits in greenhouse gas emission reductions?

iii. Its implication for electricity reliability, security, and grid management?

iv. Its implications for jobs and economic development?

v. Its implications for utility capital investment?

vi. Other relevant factors?

Our analysis tells us that conversion of our energy mix is a high capital endeavor. Reducing greenhouse gas emissions or increasing the use of renewable forms of energy take more capital than extracting fossil fuels. This is where government needs to consider other external costs the country is paying for the use of conventional fuels and determine how much incremental capital can be spent without causing unwarranted or politically unacceptable costs to our country. Congress should redirect the savings associated with the external costs currently paid by the country to the development of these new energy sources. IECA would encourage the use of incentives like investment tax credits to encourage additional capital being directed toward these goals.

2. Portfolio Inclusions and Exclusions

a. What is the principle that should determine inclusion or exclusion of any energy source from an adopted portfolio standard? (i.e., excludes all fossil-fired generation, includes all generation that emits no GHG, excludes all generation below given energy-conversion efficiency, etc.)

All options consistent with the purpose should be included in any portfolio standard. This is going to be expensive for the American people so Congress should minimize the cost by giving the market the most flexibility. Again it is important the Congress clearly identify the purpose of the legislation. If this is clear what belongs in the portfolio and what does not will be obvious.

b. What generation sources for retail electricity supplies (including efficiency offsets) should be included and should be excluded from any mandatory portfolio requirement that is adopted? Please provide your reasons for excluding any sources.

Efficiency and new generation should be in separate programs. Electricity generators should be rewarded for producing incremental energy at the lowest cost. This goal is inconsistent with allowing higher prices for finding external energy efficiencies. Consumers who are able to increase their energy efficiency should obtain the benefit and not lose this incentive to higher electricity rates.

c. To the extent that multiple renewable energy sources and efficiency or other sources are eligible for inclusion, should any tiers among them or separate sub-requirements be adopted?

Again efficiency should be restricted to your production process. Electricity generators should not be rewarded in higher rates for efficiencies gained by their customers.

d. Should there be any distinction between existing and new sources of generation eligible for inclusion in the portfolio? If so, what would be the threshold date for eligibility?

New investments in either new sources or supply expansions of existing sources should be eligible. If states are being required to hit a common portfolio standard all sources should be included. Some accounting of actual electricity production should also be factored in. Just building renewable energy generation would not be worth much if it was mechanically unreliable or if the infrastructure was not in place to allow for useful production.

e. Would the electricity equivalent of useful thermal energy from eligible sources be credited against the requirement? Why or why not?

Again this comes down to identifying the purpose. If we are trying to reduce greenhouse gas emissions or increase domestic energy production, then thermal energy which is used clearly is consistent with the purpose and should be credited. Thermal energy that is not used should not be credited.

f. To the extent energy efficiency is included:

i. How would the required savings be measured and verified?

ii. Against what base consumption period (historic or projected)?

Energy efficiency should be measured per unit of production. Changes in efficiency should be measured before and after the investment is made and applied to actual production in the period.

3. Percentage Requirement and Timing

a. What target percentage of total retail power deliveries should be achieved by the required portfolio?

Congress will need to determine the savings it can obtain due to costs the country is paying for factors outside of direct energy production by changing the energy mix. Taking this savings into account Congress will have to determine how much additional investment is prudent for the country to make on this change. The purpose of the portfolio and the included sources will determine the appropriate percentages and timing.

Will nuclear energy be included as a way to reduce greenhouse gas emissions? If so, the percentage will be much higher than if nuclear energy is not an option. Timing will depend on when realistic production can begin. For other more expensive renewable generation, Congress would do well to determine the acceptable cost in relation to current pricing. If wind or solar energy can be delivered to consumers at 120% of current rates, what is the appropriate percentage requirement? Without setting up requirements in relationship to delivered costs is guaranteeing a significant political reaction. We would view the cost thresholds more as triggers for a standard to start versus an off ramp.

Without cost effective options no portfolios should be imposed by Congress. These technologies have been developing and improving for many decades. Passing a law is not going to magically develop the technologies and Congress needs to have its eyes open to what will result if it forces unrealistic costs on the public.

4. Relationship to State Portfolio Standards and Utility Regulation:

a. Should an adopted Federal portfolio standard set:

i. A minimum standard, allowing States to set or maintain higher targets?

ii. A preemptive standard, prohibiting States to set higher or different targets?

iii. Merely a mandate for a standard, allowing States to set their own targets at any level?

iv. Merely a given percentage target, allowing States to elect generation or efficiency sources eligible to meet it?

v. A standard applying only to States without prior portfolio requirements, grandfathering all prior standard programs?

At the Federal level the target percentage should be legislated and the widest breadth of the portfolio should be defined. Congress should take input from the states to insure that all reasonable options are included (including energy efficiency from manufacturing). Guidelines for acceptable costs should be determined and procedures defined for States that cannot achieve the targets at an acceptable cost. States should be free to meet the standard within the broad Federal parameters. The only restriction on the States should be a minimum production requirement – that is not all of their renewable portfolio should be imported insuring that every state face some of the issues that will be common to these new energy sources.

b. Can and should State regulatory agencies be required to pass through the costs of complying with Federal portfolio standards requirements in retail rates?

There should be some benefit for making this change. This savings will need to be shared appropriately among the states helping the country attain its purpose. If the Federal government is the entity that sees the benefit, it should distribute this to the states. Beyond any real savings costs will have to be born by the consumers and passed on in electricity rates. There will need to be some transparency about the cost of how each state chooses to meet its renewable portfolio goal. Some level of comparative information should be available to all consumers.

5. Utility Coverage

a. Should any retail sellers of electricity be exempt from the portfolio requirement? (e.g., municipal utilities, rural cooperatives, utilities selling less than a minimum volume of power, unregulated marketers in States with competitive retail markets, etc.)

As long as the state is meeting its requirement, this should be the decision of the state. If a state is having trouble meeting its obligation then the Federal government should insure that actions taken by the state are fair relative to other states regarding market participants.

b. Should any standard apply to wholesale power markets or sales?

No, each source of electricity should compete independently.

c. Should there be any basis for discretionary exemptions of certain States or utilities?

Relative cost.

6. Administration and Enforcement

a. Should a Federal Government entity enforce the requirement and decide on any exemptions?

i. If so, which one? (e.g., the Environmental Protection Agency? The Department of Energy? The Federal Energy Regulatory Commission? A newly created office or entity?)

ii. If not, should enforcement be delegated to the States or to regional transmission or electric-system-operation entities?

A Federal agency or department likely would be responsible for overseeing the national program, but should delegate enforcement to individual states in that each state will have a different mix and approach for meeting the standard. The appropriate agency to be responsible would again tie to the purpose Congress is trying to achieve. Since energy mix will be a part of any solution it would seem prudent for the DOE to have some role.

b. How should Federal and State enforcement be coordinated in States with their own portfolio requirements?

States should be responsible for enforcement. If the state has a lesser requirement than the Federal standard the state would be obligated to meet the Federal standard. If the state has a higher standard the state would only have to report to the Federal agency that which is necessary to meet the Federal standard.

c. What penalties should apply for failure of utilities to meet the percentage mandate?

Any party required to meet the portfolio standard who does not comply, should be forced to purchase the necessary power or credits, but not be allowed to pass the cost on to its customers.

7. Credits and Trading

a. Should tradable credits for qualifying generation be utilized as the mechanism for establishing compliance?

A credit system should be allowed nationally with participation left up to the states. Each state should have a minimum production requirement that cannot be satisfied thru the use of credits or imported power.

b. Should credit trading be permitted or required on a national basis in order to achieve least-cost compliance with the portfolio standards?

Permitted but not required. The credit system should be run by the federal agency overseeing the program with a common set of regulations for any states that participate.

c. Should there be a cap on credit values to limit costs?

If there is a cap, it should be to delay target quantities or percentages if insufficient renewable generation is not economically available. Congress must attempt to determine how much the change in energy supply is costing the economy and apply the brakes if supply is not available. Simply offering a price cap only turns this exercise into a tax which again does not move the country toward its objective.

d. As between a utility purchaser and a qualifying power generator, to whom should the portfolio standard credits be initially allocated?

Initial credits should be provided to the party making the investment in the portfolio supply.

e. What relationship, if any, should portfolio standard credits have to other State and Federal credit trading programs for SO₂, greenhouse gases, or biofuels?

Again this comes back to the purpose of the portfolio. If the purpose is to reduce greenhouse gases you could see inclusion in a larger program. However if the purpose is to build generation of non-emitting energy it might be better to have a discrete program.

f. What requirements, if any, would there be concerning the length of contracts for qualifying generation and ownership of credit rights?

If the portfolio credits are to accelerate construction of new capacity they should have a life that is consistent with the project economics. While any credit should have a finite life it needs to be long enough to add value to the project. A 10-year life would be a good place to start any discussion on this topic. Once decided this should not change or we will recreate the issues that currently exist with the production tax credit or the R&D credit.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul N. Cicio". The signature is fluid and cursive, with the first name "Paul" and last name "Cicio" clearly distinguishable.

Paul N. Cicio
President

cc: The Honorable Joe Barton
The Honorable J. Dennis Hastert